The Defense Logistics Agen

DWCF Supply Management Financial Topics Presented to CSR Conference

August 27, 2004

Defense Logistics Agency
Office of the Comptroller
Program/Budget Division

Right Item, Right Time, Right Place, Right Price, Every Time...
Best Value Solutions For America's Warfighter

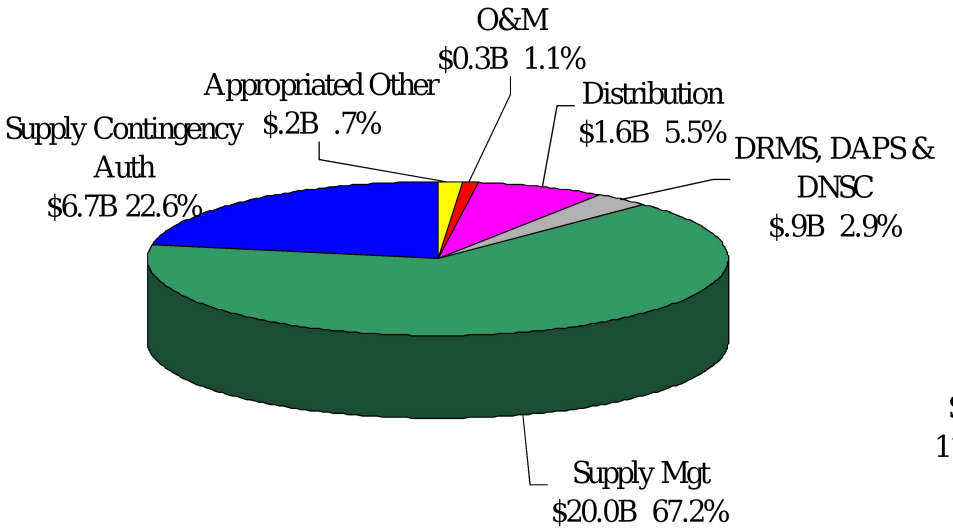
Agenda

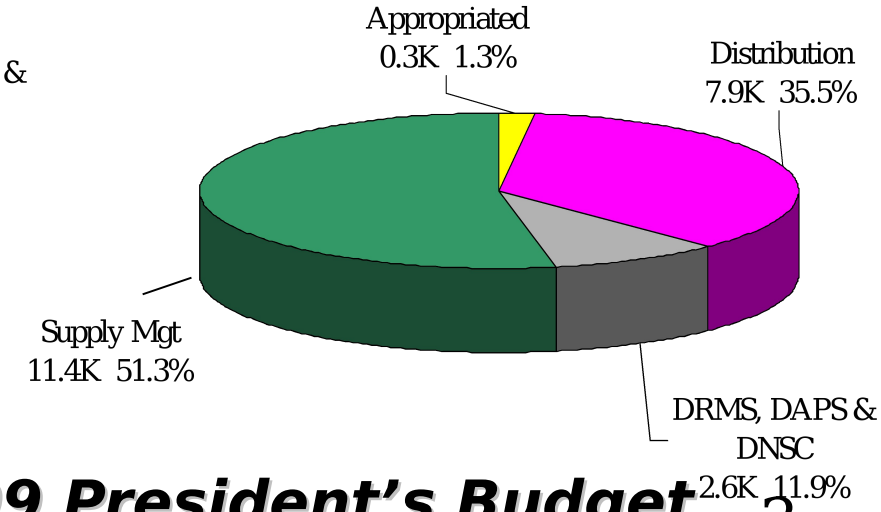
- FY05 Resource Perspective
- The Revolving Funds Concept
- FY 05 DWCF Supply Pricing
- Cash Management
- Leaning Forward
- Weekly Billings Cycles
- BSM Subsistence Interests Payments

Resource Perspective – FY 05 - Dollars and People

Budget: $29.7B **Workforce: 22.2K FTE**

DWCF	Appropriated	DWCF	Appropriated
$29.2B (98%)	$.5B (2%)	21.9K (99%)	.3K (1%)





FY 05 Data from FY 05-09 President's Budget

Revolving Funds

Revolving Fund Concept

DWCF

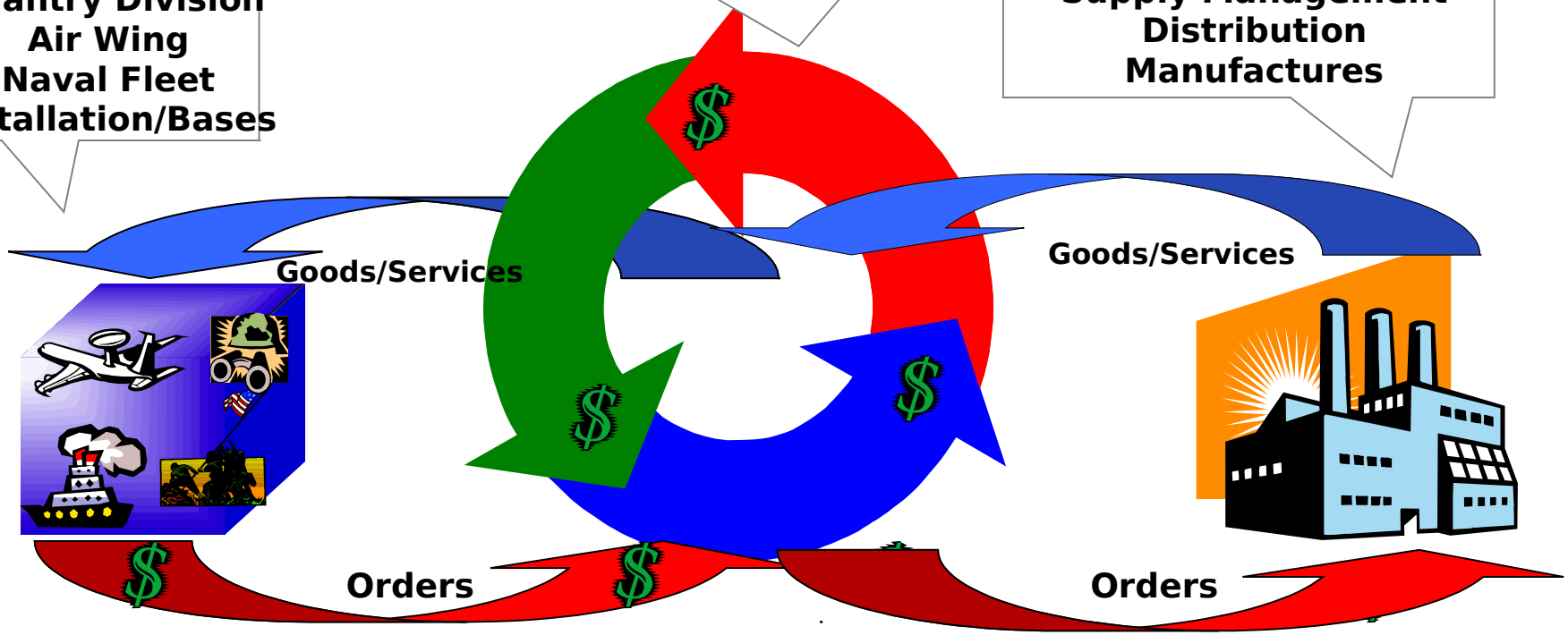
The DWCF, as a revolving fund, is cyclical in nature

Customers

Infantry Division
Air Wing
Naval Fleet
Installation/Bases

Primary Supplier

Supply Management
Distribution
Manufactures



DWCF Overview : Some Concepts

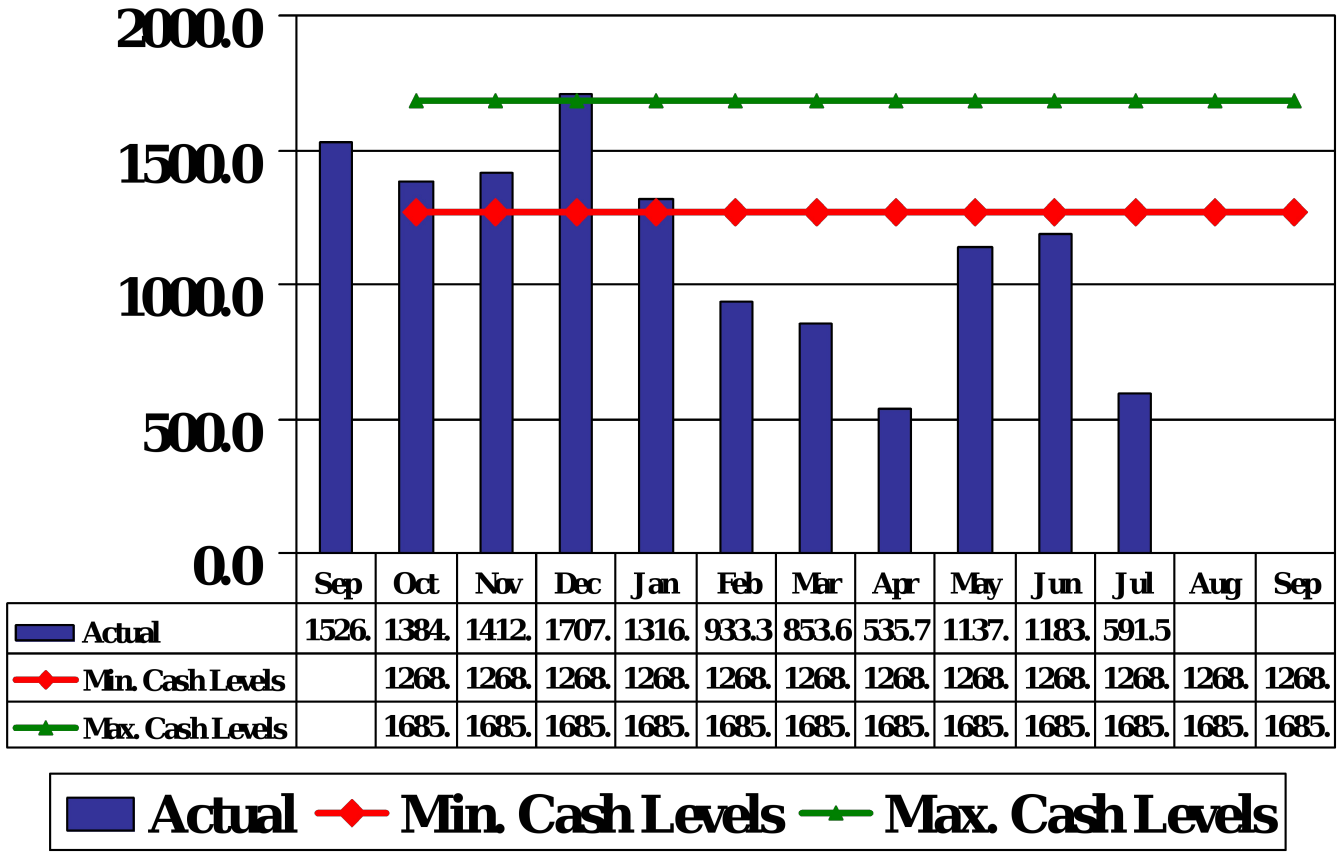
- **DWCF Provides Considerable Flexibility**
  - **Operating and Capital Budgets**
- **DWCF Goal is to Breakeven**
  - **Return Profits**
  - **Recoup Losses**
- **Cash Management**
  - **Customers Reimburse Provider for Products or Services Received**
  - **Focus on Cost**
  - **Improve Cost Visibility, Identify Full Cost of a Product or Service**
    - **Decision-Makers Know the Cost of Their Decisions**
- **Stabilized Rates**
  - **Protect Customers from Cost Increases During Execution**

Cash Management

DWWCF CASH MANAGEMENT

- **DLA was assigned cash management responsibility for the Defense-Wide Working Capital Fund in February 1995**
  - **DoD delegated to DLA 31 USC 1517, Prohibited Obligations and Expenditures (Anti-deficiency Act)**
- **Current DWWCF Composition**
  - **Defense Logistics Agency – 4 Activity Groups**
  - **Defense Finance and Accounting Service**
  - **Defense Security Service**
  - **Defense Information Systems Agency**
  - **Joint Logistics Systems Center (residuals)**
  - **OSD Corporate Account (residuals)**
- **Fund Balance With Treasury**
  - **No Annual Appropriation**
- **Monthly Management Objectives**
  - **Maintain sufficient cash levels to pay costs of business**
    - **Six months of capital investments**
    - **Seven to ten days of operating costs**

DWWCF CASH – FY04



	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Actual	1526.	1384.	1412.	1707.	1316.	933.3	853.6	535.7	1137.	1183.	591.5		
Min. Cash Levels		1268.	1268.	1268.	1268.	1268.	1268.	1268.	1268.	1268.	1268.	1268.	1268.
Max. Cash Levels		1685.	1685.	1685.	1685.	1685.	1685.	1685.	1685.	1685.	1685.	1685.	1685.

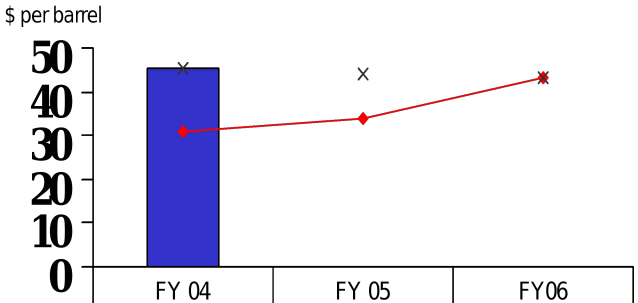
FY04 Impacts on Cash

- **Services' Payment of Distribution Bills**
  - Delay in Services paying bills causes drain on cash
  - Services begin to pay bills in May
- **Non-Energy leaning forward efforts**
  - Increased inventory levels to increase supply availability
  - New normal sales slip into four quarter or FY05
- **DLA paying higher fuel costs than those recovered in the prices we charge our customers**
  - Stabilized rates places the risk on cash
  - Requesting appropriated dollars to offset cash drain in supplemental
  - Increasing FY06 prices.

Energy

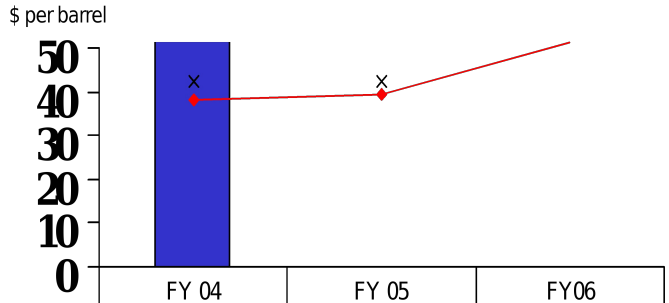
Petroleum Standard Prices (Based on PBR 06)

Product Only ($/Barrel)



	FY 04	FY 05	FY06
Cumulative EOY	45.50		
Product in Standard	30.88	33.91	43.22
× Projected	45.50	44.18	43.22

Product and Non-Product ($ per Barrel)



	FY 04	FY 05	FY06
Cumulative EOY	52.73		
Standard Prices	38.22	39.48	51.24
× Budgeted	42.17	42.42	51.24

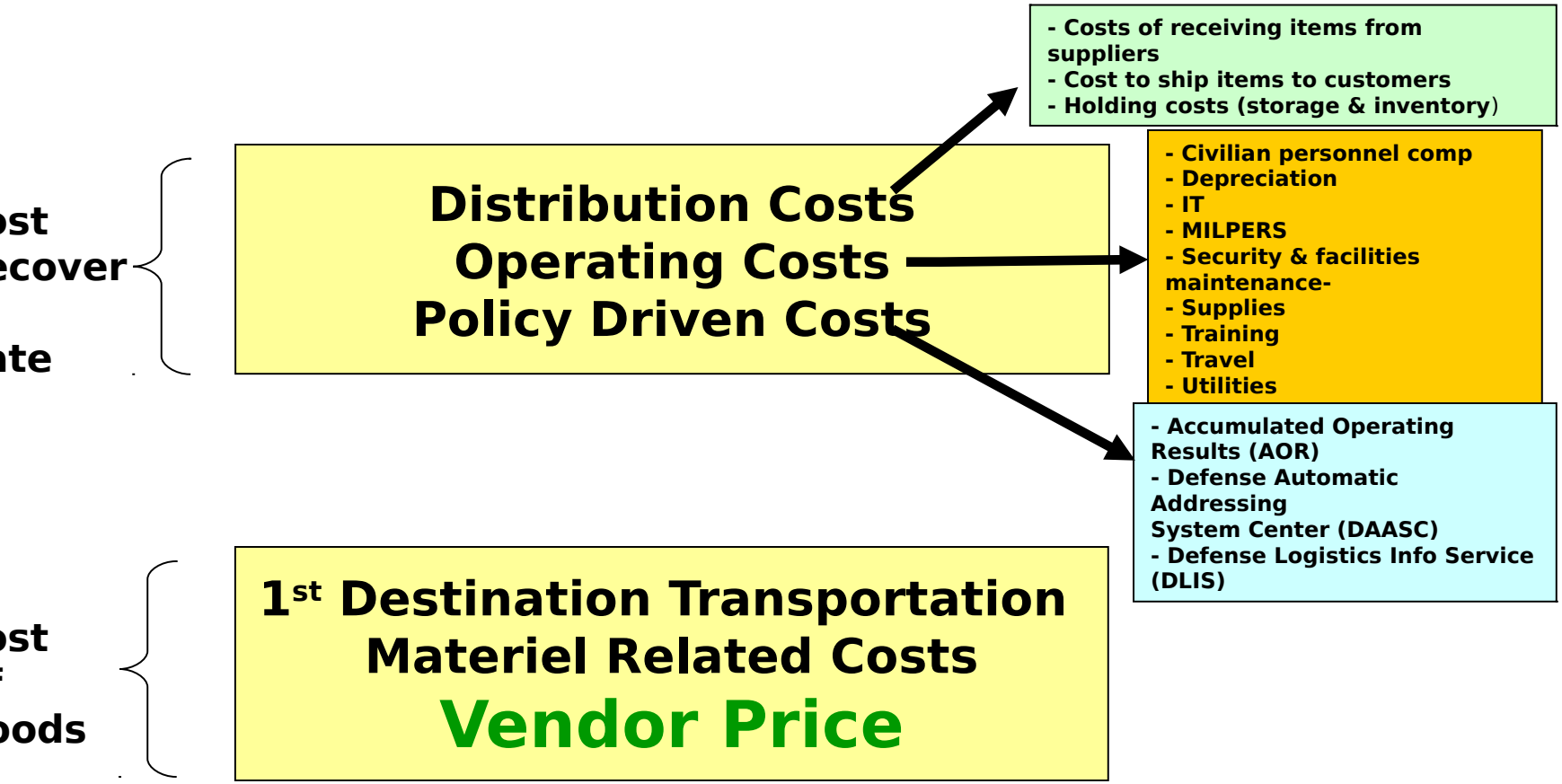
- Initial standard prices for a fiscal year are finalized approximately 9 months prior to the start of the fiscal year in which they are used.
- DESC product price projections considers Organization of Petroleum Exporting Countries (OPEC) production decisions
  - Acquisition and materiel management techniques are used to mitigate rising costs
  - Costs are offset by Supplementals and transfers of AOR from non-energy.

Pricing

Pricing Objectives

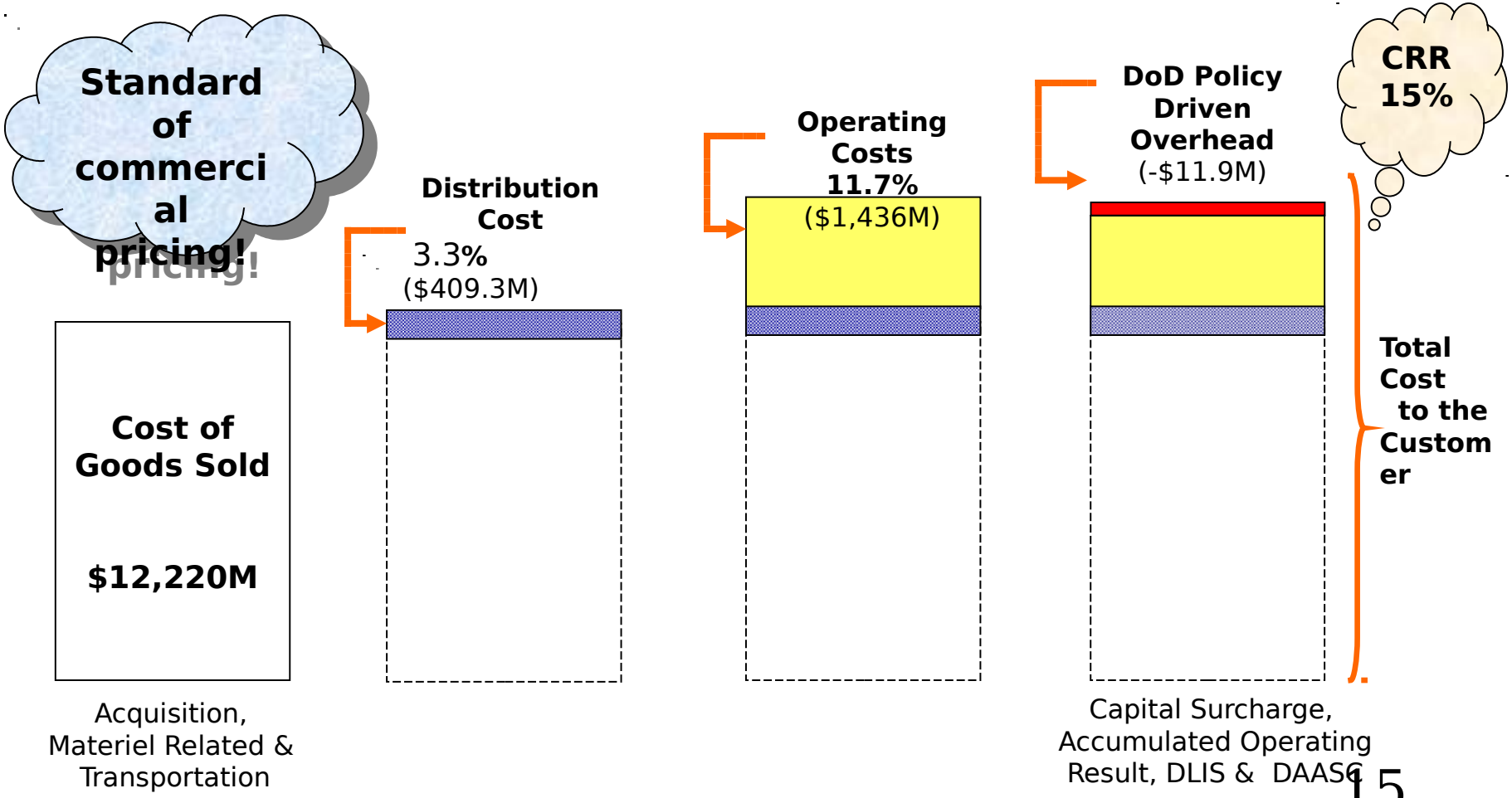
- **Working Capital Funds Must Work to:**
  - **Recover Costs and Breakeven…**
    - **Maximize Customer's Value Added**
    - **Not for Profit Driven**
  - **Minimize price changes to customers**
  - **Protect customer accounts from market fluctuations during fiscal year…**
    - **Maximize Use of the DWCF**

What Makes Up the Price of an Item?

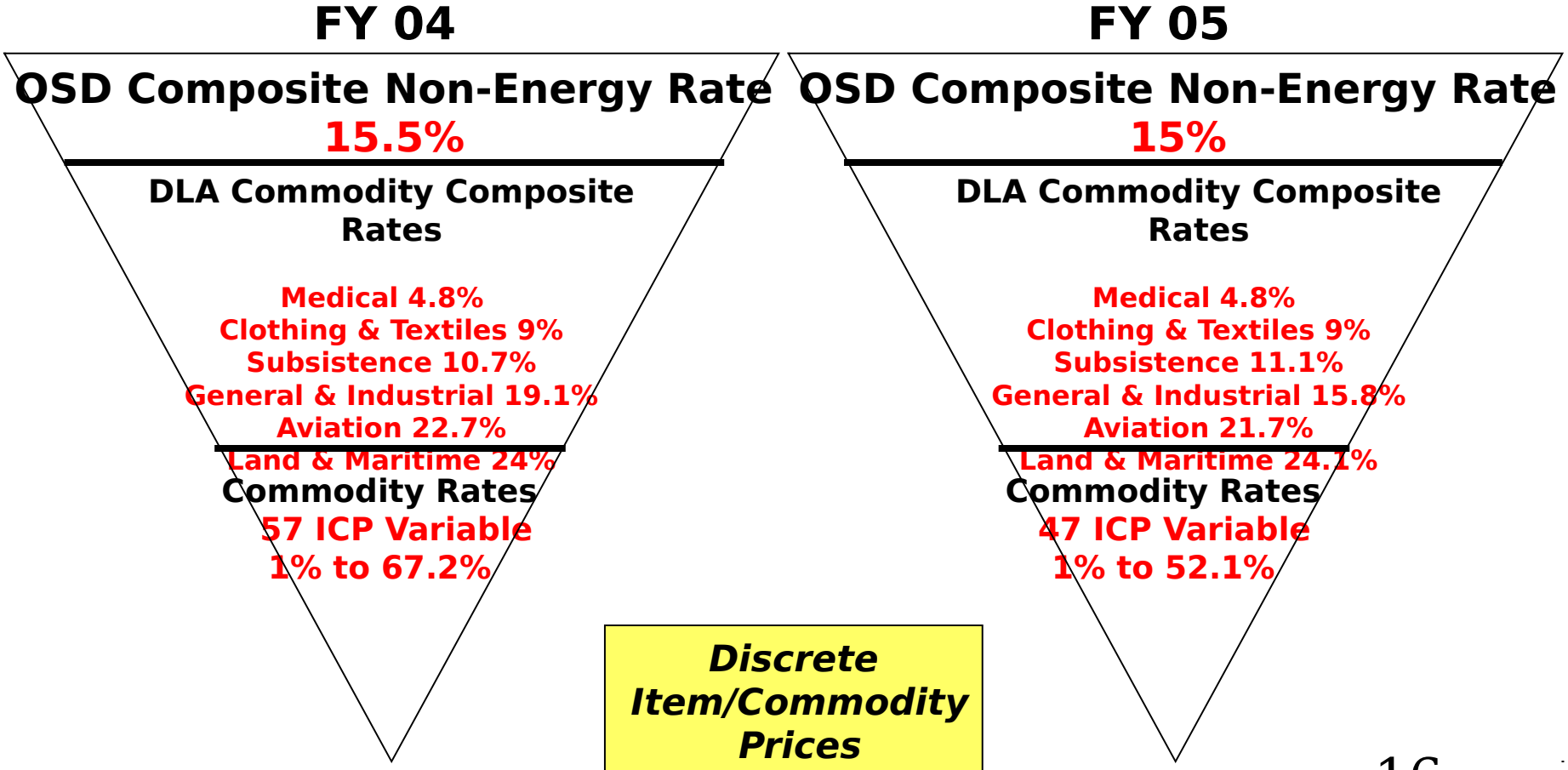


CRR + Cost of Goods Sold = Total Price of Item

Composite Rate Build-up – FY 05



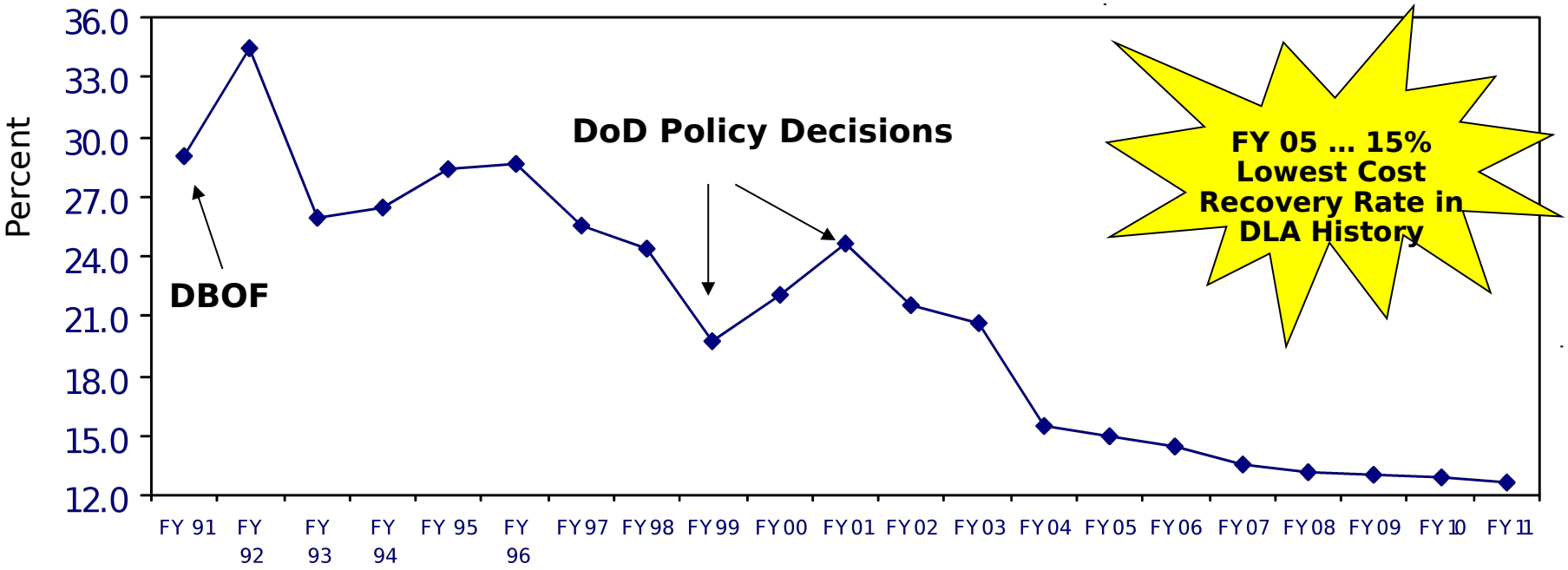
Getting to Value Related Prices



Cost Recovery Rates Over Time

CRR %

(Operating Costs as a Percentage of Total Sales)

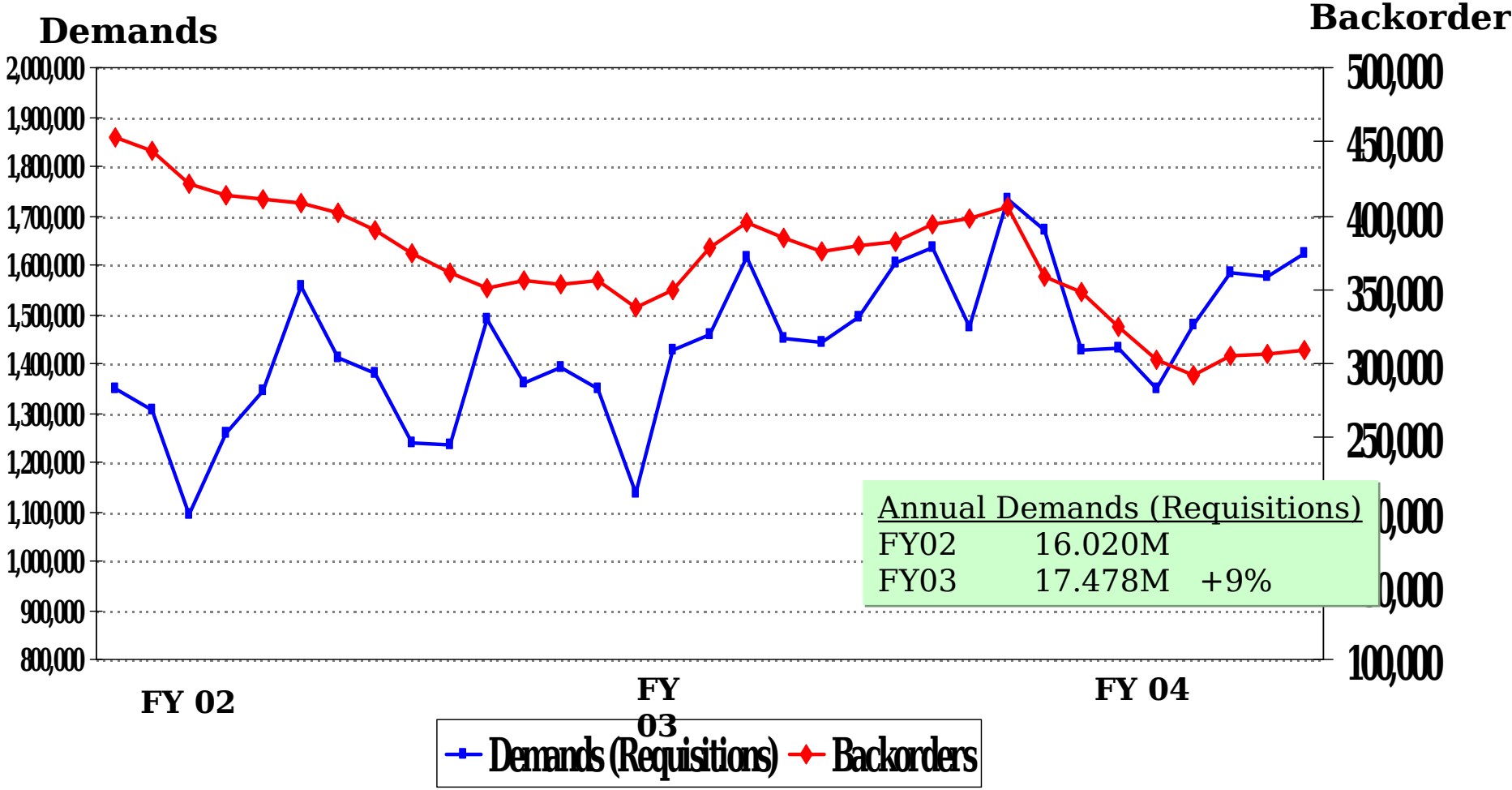


Savings Returned to Warfighter

Leaning Forward

Stocked Business

Demands/Backorders Over Time



J-38's Fy 04 "New Normal" estimate was +11% vs. FY03

DLA Investment

Constraints:

Unpredictable

- ✓ **Demand is variable - NEVER constant.**
- ✓ **New Normal**
- ✓ **Customer forecasts lack accuracy**

Cash

- ✓ **Any investment that does not result in a sale pulls money from items that sell, or requires a CRR additive.**
- ✓ **Demand increases require inventory increase which impact**

DLA Investment

Decision Process:

ICP Management

- ✓ **Decide priorities**
- ✓ **Identify those items with greatest likelihood of demand**
- ✓ **Use information from Simulation Models, SPRs, CSRs, WSPOCs, etc.**

ICPs implement policies that…

- ✓ **Achieve best SMA/overall support (MICAP, Weapons System SMA, etc.) with least cost**
- ✓ **Ensure level of workload commensurate**

Objective: Minimize cash risk and ensure support!

Investment

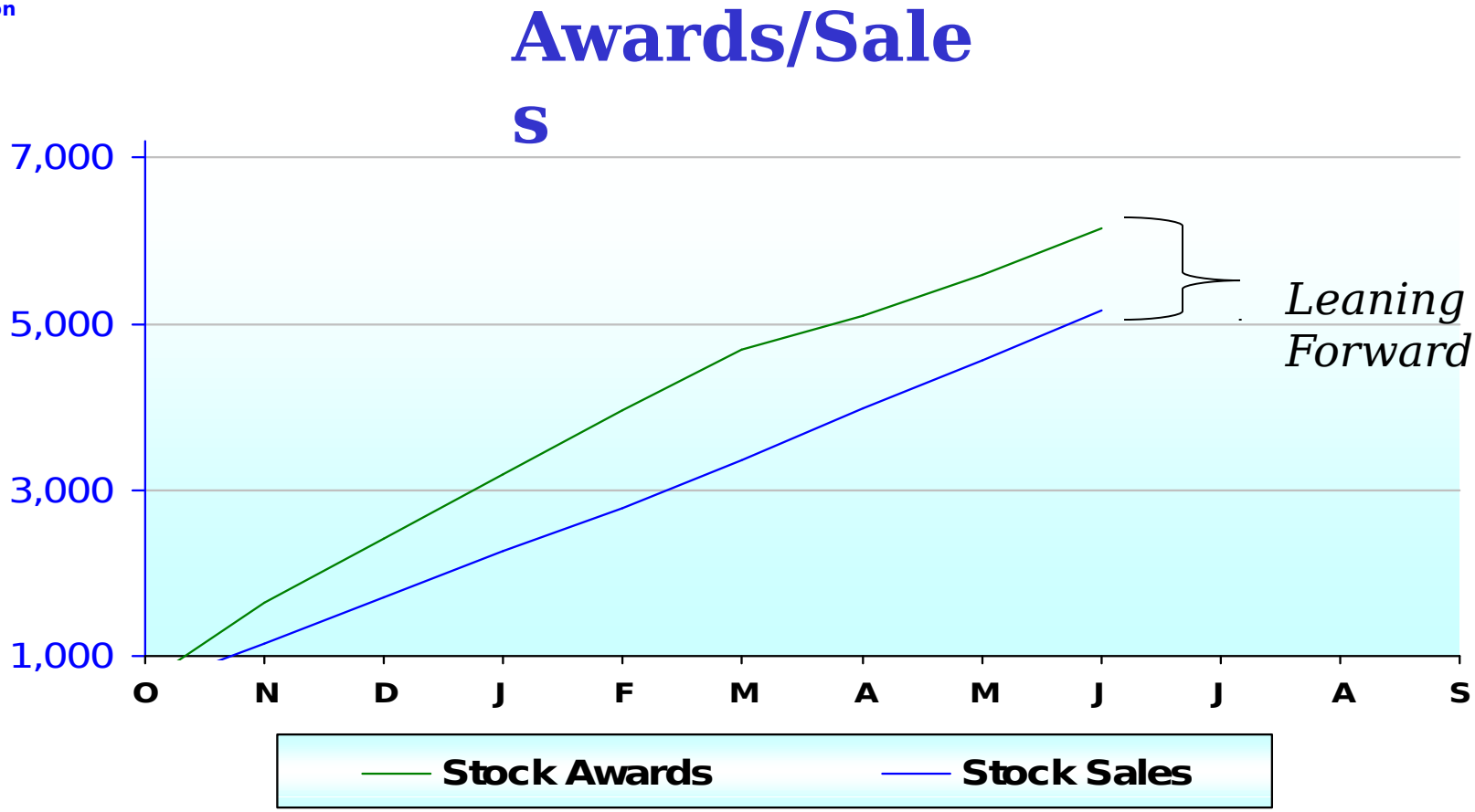
Leaning Forward Funds….

DLA obtained "leaning forward" funding (ICPs receive greater than 100% replacement rates) to finance inventory/pipeline increases….

- **Protects SMA during New Normal Demand Increases**
- **Requires ICPs to "pay back" once demand is normalized….**
  - ✓ **Protects cash,**
  - ✓ **Prevent CRR increases**

Leaning Forward $$

$Million



DLA is Leaning Forward!

DLA Investment

Benefits:

- **Supply Availability … Up 3%**
- **Backorders … Down 34,600**
- **Backorder Index … Down 0.7 days**
- **Weapons System Supply Availability**
  … Up 3% from Oct 03 to Jun 04

Investment Summary

- **Having the right item on the shelf at the right time is a difficult task!**
- **Resources are not unlimited.**
- **We've been able to make our case for significant investment dollars, keeping surcharges low, and are performing extremely well against our metrics.**

Right place, Right time, Right price!

Weekly Billings Cycles

Weekly Billing Cycles

- **June 10, 2004: Army requested DLA institute weekly billing cycles to assist them in meeting accelerated financial reporting requirements**
- **DLA decision to process weekly bills for SAMMS interfund transactions only to avoid systemic changes to other DLA systems and increases in manual billings**
- **Weekly billings commenced July 16, 2004**
- **Change affects all DLA interfund customers**
- **Benefit to customer: Reduces workload at month-end and allows ample time to post commitments/obligations during the month.**
- **Benefit to DLA: Improves ability to forecast end-of-month cash balance**

BSM Subsistence Interest Payments

BSM Subsistence Interest Payments

- **Vendor pay issues… causing interest payments**
  - **Must make three way match before paying vendor … order, receipt and invoice**
- **Problem:**
  - **Customer receives substitute or additional lines at time of delivery**
    - **Order and invoice do not match**
  - **Updated Customer receipts not provided**
- **CSR’s Can Help… by working with the customers to educate them on the importance of timely and accurate receipt and acceptance of goods**

BACKUP CHARTS

Clothing and Textiles

VARIABLE RATE CATEGORIES	FY 04	FY 05
Ecclesiastical	5.0%	5.0%
JSLIST	7.0%	8.0%
DVD	9.0%	8.9%
RECRUIT/OCIE		9.1%
** Organizational Items	9.4%	
** Tents/Chemical	9.2%	

** Indicate the items were merged to RECRUIT/OCIE

Medical

VARIABLE RATE CATEGORIES	FY 04	FY 05
Army SSF	1.0%	1.0%
PV CONUS	1.7%	1.7%
Capital Equipment	2.0%	2.0%
E-Commerce	3.4%	3.4%
PV Fleet	15.9%	10.6%
PV OCONUS	8.0%	13.1%
Flu (Vaccines)	23.0%	23.0%
Traditional Support	39.9%	39.6%

Subsistence

VARIABLE RATE CATEGORIES	FY 04	FY 05
Dining Hall CONUS	5.5%	5.9%
UGR-As	8.9%	8.9%
Dining Hall OCONUS	9.9%	11.1%
CILF Ship Support	10.0&	10.0%
Unitization	22.9%	22.9%
Operational Rations	23.8%	23.8%
* Food Service Stocked	67.2%	

* Indicate category was merged to Operational Rations

General and Industrial Class IV/VII

VARIABLE RATE CATEGORIES	FY 04	FY 05
HEPP/Hi Dollar Orders	1.0%	1.0%
MRO Services PV	3.0%	3.0%
MOR, Metals, MHE PV	3.9%	3.9%
Equipment PV	4.9%	4.7%
Lumber PV	5.3%	5.3%
EMALL	5.5%	5.5%
RFID Tags	9.9%	6.7%
POPS DVD Class IV/VII	10.8%	9.7%
POPS Stocked Class IV/VII	38.6%	16.5%
Container and MHE	16.7%	16.5%
Non – LTC	39.7%	30.8%
*Decentralized	38.6%	

* Merged category to Non - LTC

General and Industrial
Class IX

VARIABLE RATE CATEGORIES	FY 04	FY 05
Planned DVD	10.4%	9.7%
IPV	5.7%	5.7%
LTC Stocked	38.6%	34.4%
Non – LTC Stocked	56.9%	52.1%

Aviation

VARIABLE RATE CATEGORIES	FY 04	FY 05
EMALL	8.3%	8.0%
Planned DVD	8.9%	8.8%
Price Sensitive	10.0%	10.0%
LTC Stocked	20.9%	20.8%
Stocked Non – LTC	25.3%	22.9%
Decentralized	31.5%	29.5%
Intensive Management	27.1%	32.2%

Land and Maritime

VARIABLE RATE CATEGORIES	FY 04	FY 05
EMALL	8.0%	8.0%
Planned DVD	9.0%	9.0%
Decentralized	23.0%	23.0%
LTC Stocked	23.0%	23.0%
Non – LTC Stocked	27.2%	27.2%
Non – Stocked	28.0%	28.0%
NSO High Risk	31.0%	31.0%
* Price Sensitive	10.0%	Merged across all categories
* Intensive Management	31.0%	

* Merged categories